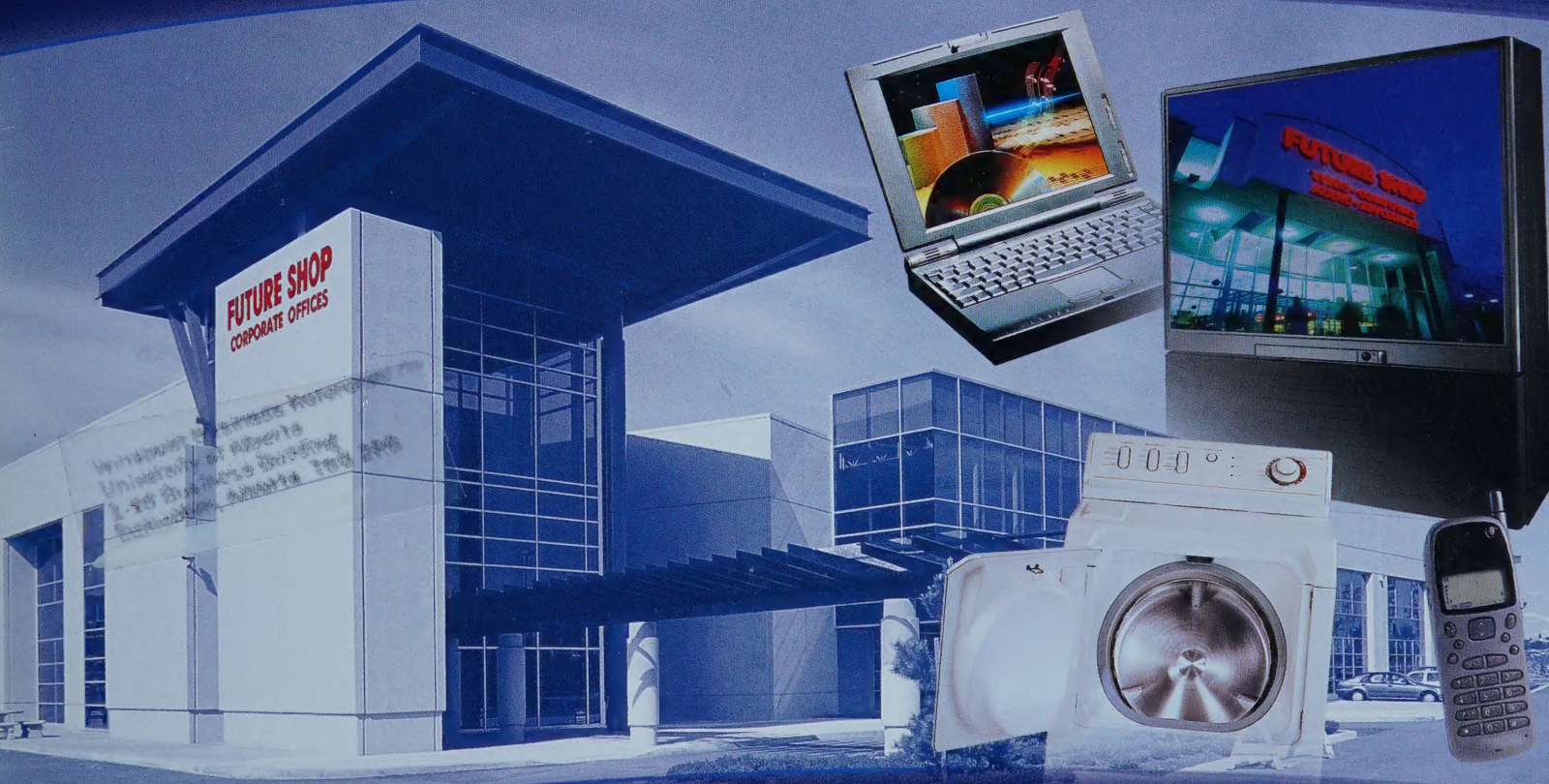


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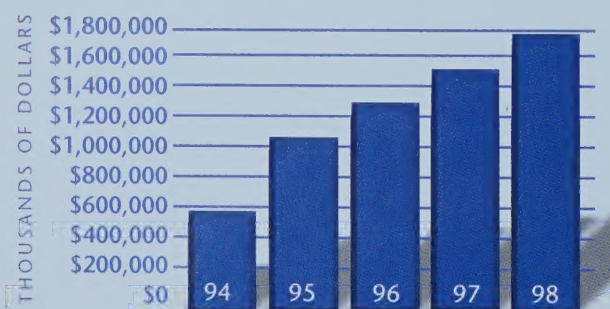
FUTURE SHOP

FINANCIAL & OPERATING HIGHLIGHTS

Fiscal Years ended March 31,
(in thousands of dollars
except per share data)

	1998	1997
Sales	\$1,760,160	\$1,523,016
Earnings before tax	\$3,307	\$3,632
Net earnings	3,961	\$5,015
Net earnings per share	\$0.31	\$0.40
Cashflow from operations, per share	2.32	\$2.35
Total assets	\$438,659	\$403,557
Shareholders' equity	89,866	\$85,905
Number of stores at end of fiscal year		
Supercentres	104	100
Electronics Express Stores	6	6
Return on average shareholders' equity	5%	6%
Growth in total sales	16%	17%
Growth in same store sales	6%	(6%)

SALES

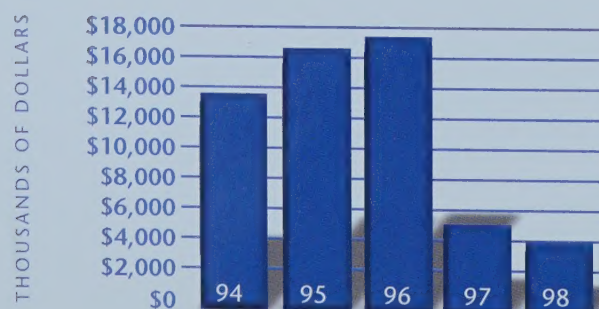


CASHFLOW

FROM OPERATIONS

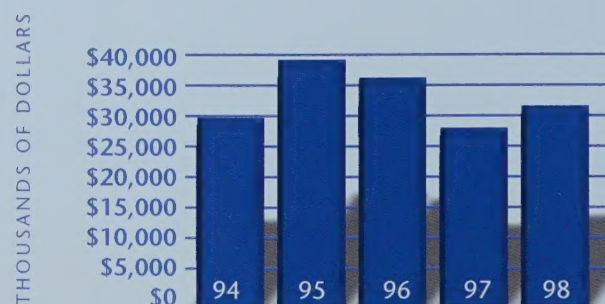


NET EARNINGS



EARNINGS

BEFORE INTEREST, TAXES, DEPRECIATION & AMORIZATION



* The above information consolidates Future Shop Ltd. with its subsidiary.

Since taking over the presidency in May of last year, I have focused my attention on building a strong and experienced management team which I believe is crucial to our continued success. Through this process, a number of senior managers have left the Company. This has resulted in increased expenses and lower profits due to non-recurring payments in the amount of approximately \$3.4 million for termination of former employees and relocation costs for new employees. We are fortunate to have attracted a good number of talented retailers to our organization over the past year who will contribute greatly to our successful future growth.

Another key area of focus and concern to me is the financial performance of our U.S. operations. As you can see from our earnings results this year, the results of our U.S. subsidiary have not improved. In the last annual report, I wrote that our first goal for the 1998 fiscal year would be to improve the profitability of our U.S. operations. Obviously we did not achieve this goal. I do believe that great strides have been made in the past few months to improve the competitive position and customer service of the stores in the United States. Based on the actions we have recently taken, we have formulated a plan to increase sales over the next year and bring the U.S. operations towards profitability. This will not be easy, but through the efforts of our current management and team of knowledgeable sales associates, I believe they will turn the corner this year.

Our Canadian operations continue to grow both in terms of sales and profits. This is particularly encouraging in light of the unusual expenditures which were made during the year. We are continuing our expansion throughout

Canada and will be opening five new stores and relocating another two stores during the next fiscal year. We have recently developed a smaller store size capable of offering the full range of Future Shop products and services which we plan to roll out to smaller markets in Canada over the next three years. In addition, we continue to renovate older stores to retain our competitive advantage in all Canadian markets.

A couple of years ago we recognized the need to improve our information systems in order to reduce costs and improve customer service. We are in the process of implementing new systems for every main business process within the Company. Last year we spent \$14 million on information technology and we expect to spend another \$29 million during the current year. We expect all of these new systems to be operational by the end of calendar year 1999 and we should start to see some of the projected benefits later this year. In my opinion, these investments are significant and very important to the future success of our Company. They will allow us to achieve a high level of operational excellence which will greatly enhance the "value proposition" we are offering to our customers.

I wish to thank our shareholders, suppliers, bankers and professional advisors for their support during the past year. I would also like to acknowledge the hard work and dedication of all our employees. During the current year I intend to take every opportunity to reinforce the unique strengths of work ethic and strong culture which has made Future Shop the successful company it is today. We will also be focusing a tremendous amount of energy and attention to provide the highest level of service to our customers. Future Shop will not be beaten on price or service.

Hassan Khosrowshahi
*Chairman of the Board,
President and C.E.O.*

Expansion

This past year Future Shop opened four stores in the Portland, Oregon area. These openings bring our subsidiary's presence in the United States to a total of 28 stores located throughout Washington, Oregon, Idaho, Utah and Montana.

In Canada, Future Shop currently operates 76 discount supercentres from Victoria to Halifax, in addition to 6 Electronics Express locations in Western Canada.

This year we are planning to open five new stores in Canada—Sudbury, Ontario; Grand Prairie, Alberta; Red Deer, Alberta;



Newmarket, Ontario; and St. John's, Newfoundland. We look forward to our ongoing growth and expansion during the coming year.

Retail Strategy

Future Shop's operating strategy is to provide quality office, home entertainment and appliance products and services at guaranteed low prices, accompanied by friendly, knowledgeable and efficient service in a lively, interactive and entertaining environment.

★ New Stores

This past year Future Shop named Doner Advertising of Detroit, Michigan as our advertising agency of record. Doner will act as Future Shop's partner in the strategic planning and execution of advertising for both Canada and the United States. We expect that this relationship will allow us to improve the effectiveness of our advertising and enhance the overall quality of our communications to our customers. In store, Future Shop's innovative L.I.F.E. (Live, Interactive, Fun, Friendly, Family oriented, Exciting, Entertaining & Educational) store design program provides for ease of purchase for our customers in an interactive and enjoyable environment. Colourful and informative signs and design elements lead customers to our various specialty departments, including 'Surround Yourself With Sound' home theatre viewing rooms, 'Hear it First' CD listening



bars, and car audio sound rooms. These interactive displays allow our customers to experience the benefits of a wide selection of the latest technology products and Future Shop's staff is focused on providing knowledgeable and friendly service during and after the sale. Future Shop's in store technical service departments are staffed by A+ certified technicians who provide upgrade and repair services on a wide variety of products. This capability allows us to service what we sell and to ensure that Future Shop customers receive ongoing value from the products they purchase.

BRAND NAME SELECTION

AND LEADING-EDGE TECHNOLOGY

Computers

This past year saw an increasing shift in the computer marketplace from first time buyers to those purchasing replacement computers or additional computers for use in the home or office. A focus on this growing market allowed us to position ourselves to satisfy the needs of these experienced computer users with new products and services. The recent introduction of CTO (Configure to Order) systems to Future Shop's product selection allows us to provide customers with customized solutions tailored to their individual computing needs. Future Shop continues to cater to all computer users with brand name personal computers, printers, peripherals, upgrades and accessories in a broad range of models, features and prices. Our selection of laptops, notebooks and PDAs(Personal Digital Assistants) supply the needs of the mobile professional and



Future Shop also carries thousands of software titles for professional, educational and recreational users.

Audio & Video

Future Shop continues to develop its commitment to leadership in the retailing of audio and video products in the digital era. Direct to Home (DTH) satellite systems, Digital Video Discs (DVD), digital camcorders, digital cameras, and MiniDisc digital recording and playback units are just some of the products which Future Shop offers to customers from our wide

selection of digital audio and video technology. The addition to Future Shop this past year of Sony and harman/kardon audio and video products enhances our selection of quality brand name merchandise for our customers.

Major Appliances

Selection, service and product knowledge continue to be the focus of the Major Appliance department. The Maytag, Jenn Air and Magic Chef brands joined the selection of major brand names offered by Future Shop in our Major Appliance department this past year. The ongoing focus on developing our selection of popular brands, including such quality marks as GE, Whirlpool, Frigidaire, Hoover, Panasonic, Goldstar and Sharp, reflects Future Shop's commitment to continued



success in the major appliance field. Ongoing enhancements to our major appliance customer service programs, including increased training for our sales associates in product knowledge and service, have provided positive results. A friendly shopping environment incorporating Future Shop's innovations in the merchandising of major appliances has resulted in a greater ease of shopping for our customers as they consider a vast selection of top brand names at competitive prices.

BRAND NAME SELECTION

AND LEADING-EDGE TECHNOLOGY

Communications

Deregulation in the telecommunications industry has increased the number of service providers in both wireless and landline communications and Future Shop is positioned as the retailer of choice in this new environment. As the only national retailer in Canada to offer all four wireless networks—Bell Mobility, Cantel, Clearnet and Microcell, Future Shop provides customers with the opportunity to compare the products and services of these quality communication brands in a friendly, interactive



environment. New partners with Future Shop in the wireless field this past year include Clearnet, Microcell, GTE Wireless Services and Sprint PCS. With a tremendous selection of telephones, pagers, answering machines and business machines, Future Shop continues to lead the market in the retailing of advanced technology communications products.

Entertainment - Music CDs, Video Tapes and DVD

'More Entertainment' for 'Less Price' continued to attract customers into Future Shop stores this past year as we increased market share in entertainment product sales in both Canada and the United States.

Future Shop entered the movie business in the fall of 1997 with exciting results as we launched the sale of movies on videotape and DVD (Digital Video Disc) in our existing retail music departments. DVD, the digital format for prerecorded movies, celebrated the first anniversary of its introduction into the marketplace this past March, and Future Shop has become



one of the top retailers of this format in Canada. Programs such as 'Future Stars', a grass roots promotional initiative for developing artists, continue to increase the awareness of Future Shop as a leader in the music business. Undertakings such as this will continue to be introduced as we expand our entertainment department to include most stores in the chain this coming year.

Results of Operations

The following table presents the results of operations as a percentage of sales for the last two fiscal years:

	1998	1997
Sales	100.0%	100.0%
Cost of sales	77.9%	76.9%
Gross profit	22.1%	23.1%
Selling, general and administrative expenses	21.9%	22.9%
Earnings before income taxes	0.2%	0.2%
Income tax recovery	0.0%	0.1%
Net earnings	0.2%	0.3%

Sales

In fiscal 1998, Future Shop's sales increased 16%. Future Shop's sales growth in 1998 resulted from the opening of four new stores during the year and obtaining a full year of sales from 17 stores opened in 1997. Same store sales, from stores opened a full 12 months, increased 6% for the year.

	Canada	USA	Consolidated 1998	1997
Sales (000)	\$1,251,197	\$508,963	\$1,760,160	\$1,523,016
Sales per retail square foot per annum	\$915	\$746	\$859	\$822
Growth in total sales	14%	19%	16%	17%
Growth in same store sales	9%	(1%)	6%	(6%)

In Canada we achieved strong same store sales results, especially in Quebec and Ontario, across all product categories. While the USA sales results improved over the prior year, the USA continues to operate in a sluggish retail environment for consumer electronics and faces increased competition in several of the Company's markets.

A breakdown of sales by product category is as follows:

	1998	1997
Home Office	49%	49%
Audio and Video	29%	29%
Appliances	7%	8%
Communications	7%	7%
Music, Software	4%	3%
Other	4%	4%
	100%	100%

Gross Profit

The Company's gross profit margins declined to 22.1% in 1998 compared to 23.1% in 1997. Gross margins declined in both Canada and the United States across most product categories.

Selling, General and Administrative Expenses ("SG&A")

Future Shop's SG&A expenses, as a percentage of sales, improved to 21.9% from 22.9% in 1997. SG&A increased due to non-recurring payments for the termination of former employees and relocation costs of new employees totaling approximately \$3.4 million. SG&A, as a percentage of sales, decreased due to positive same store sales results, better cost control and the fact that only four new stores were opened this year compared to 17 last year.

Income Taxes

The Company recorded a tax recovery of \$654,000 compared to a recovery of \$1,383,000 last year. The recovery can be attributed to recognizing income tax benefits arising from previously acquired tax losses. Consistent with the prior year the Company is not recognizing tax benefits on tax losses or timing differences in its USA subsidiary.

Canadian Operations

During 1998 net earnings in Canada improved to \$31,203,000 from \$30,801,000 last year due, primarily, to higher same store sales and lower costs as a result of not opening any new stores during the year.

Pacific Northwest Operations

During 1998, the Company's wholly owned USA subsidiary, Future Shop, Inc., opened four new stores, all in Portland, Oregon which is a new market for the Company. This brings the total number of stores in the Pacific Northwest to 28. The USA subsidiary had a net loss of \$27,242,000

compared to a net loss of \$25,786,000 for 1997. Negative 1% same store sales combined with decreasing gross margins reduced earnings. On the expense side reduced levels of advertising and fewer new store openings resulted in a 1.4% decline in SG&A expenses. The net effect of these items resulted in a slightly greater loss for the year.

Net Earnings

Consolidated net earnings were \$3,961,000 as compared to \$5,015,000 in 1997.

Liquidity and Capital Resources

Cash flow generated from operations remained constant at \$29,340,000 compared to \$29,826,000 in 1997.

At year end, working capital decreased to \$16,072,000 compared to \$19,426,000 in 1997 reflecting better management of our inventory levels compared to the prior year.

Capital expenditures for 1998 were \$34,301,000 as compared to \$47,031,000 for 1997. The decrease is primarily due to opening only four stores compared to 17 in the prior year. Total capital expenditure on the new stores totaled approximately \$8,000,000 and the continued upgrade of our information systems added \$14,000,000. Investments of \$3,500,000 were made in our rental asset pool and other long term assets. The balance was spent on renovating existing stores and distribution centres, further development of our in-house service depots, and improving our security systems throughout the chain.

For fiscal 1999 the Company plans to incur capital expenditures of approximately \$40,000,000. This spending will be spread over approximately five new and four relocated stores, upgrading management information systems and continued renovations of selected stores. All the new stores will be in Canada as the Company pursues smaller population markets.

The Company has available a \$66 million revolving credit facility with a bulge facility to \$96 million between October and February. At March 31, 1998 no borrowings existed against the facility and the Company was in compliance with all bank covenants.

The Company believes that its cash flow from operations and existing credit facilities will be sufficient to fund the Company's operations for fiscal 1999.

Year 2000

The Company is currently in the process of addressing the Year 2000 issue as part of a comprehensive project to upgrade most of its information systems. This project will ensure that the systems consistently and properly recognize the Year 2000. Certain of the Company's systems include new hardware and packaged software purchased from vendors who have represented that the systems are Year 2000 compliant. The Company is in the process of obtaining assurances from vendors that timely updates will be made available to make remaining purchased software Year 2000 compliant. Internal and external resources are being used to make the required modifications and test Year 2000 compliance. The Company plans on completing the testing process of all significant applications by the end of the next fiscal year. The total capital budget for information technology for the next fiscal year is approximately \$29 million which includes addressing the Year 2000 issue.

Dividend Policy

The Company intends to continue its policy of retaining its earnings for use in its business and does not expect to pay dividends on its common shares.

SUMMARY OF QUARTERLY RESULTS

OF OPERATIONS (UNAUDITED)

Similar to most retailers, the Company's business is seasonal with 33% of the Company's revenues generated in the fiscal third quarter which includes the holiday season. Summary results for the last two years on a quarterly basis are as follows:

CONSOLIDATED SUMMARY OF EARNINGS (in thousands of dollars, except per share data)

FISCAL 1998	June 30 1997	September 30 1997	December 31 1997	March 31 1998	Total
Sales	\$354,310	\$414,603	\$585,600	\$405,647	\$1,760,160
Gross Profit	\$79,215	\$89,566	\$129,178	\$91,428	\$389,387
Net Earnings	(\$5,027)	\$720	\$8,908	(\$640)	\$3,961
Earnings per Share	(\$0.40)	\$0.06	\$0.70	(\$0.05)	\$0.31

CONSOLIDATED SUMMARY OF EARNINGS (in thousands of dollars, except per share data)

FISCAL 1997	June 30 1996	September 30 1996	December 31 1996	March 31 1997	Total
Sales	\$299,193	\$348,224	\$510,206	\$365,393	\$1,523,016
Gross Profit	\$63,614	\$81,288	\$114,713	\$92,600	\$352,215
Net Earnings	(\$6,354)	\$1,079	\$7,130	\$3,160	\$5,015
Earnings per Share	(\$0.50)	\$0.09	\$0.56	\$0.25	\$0.40

Years ending March 31,
(in thousands of dollars, except per share data and sales per retail square foot)

	1998	1997	1996	1995	1994
CONSOLIDATED SUMMARY OF EARNINGS					
Sales	\$1,760,160	\$1,523,016	\$1,303,828	\$1,082,594	\$594,082
Gross profit	389,387	352,215	282,376	225,191	136,202
Selling, general and administrative expenses	386,080	348,583	261,467	194,800	111,247
Earnings before interest, taxes, depreciation and amortization	31,601	27,550	35,412	38,315	29,152
Earnings before tax	3,307	3,632	20,909	30,391	24,955
Net earnings	3,961	5,015	17,235	16,544	13,337
Weighted average share	12,670	12,670	12,670	12,670	11,575
Earnings per share	\$0.31	\$0.40	\$1.36	\$1.31	\$1.15
CONSOLIDATED SUMMARY OF EARNINGS PERCENTAGES					
Gross profit	22.1%	23.1%	21.7%	20.8%	22.9%
Selling, general and administrative expenses	21.9%	22.9%	20.1%	18.0%	18.7%
Earnings before tax	0.2%	0.2%	1.6%	2.8%	4.2%
Effective tax rate	(19.8%)	(38.1%)	17.6%	45.5%	46.6%
Net earnings	0.2%	0.3%	1.3%	1.5%	2.2%
CONSOLIDATED SALES STATISTICS					
Total increase over last year	15.6%	16.8%	20.4%	82.2%	77.7%
Same store sales growth	6.4%	(6.4%)	(9.7%)	32.4%	48.1%
Sales per retail square foot	\$859	\$822	\$1,093	\$1,502	\$1,370
CONSOLIDATED SUMMARY BALANCE SHEETS					
Total current assets	\$330,390	\$299,647	\$271,789	\$209,864	\$147,658
Total assets	438,659	403,557	354,716	257,019	167,707
Total current liabilities	314,318	280,221	236,604	162,329	103,193
Non-current extended warranty plan	28,283	29,114	27,682	23,340	13,051
Total liabilities	348,793	317,652	273,826	193,364	120,596
Total shareholders' equity	89,866	85,905	80,890	63,655	47,111
Total equity and liabilities	438,659	403,557	354,716	257,019	167,707
CONSOLIDATED CASH FLOWS					
Cash flow from operations	\$29,340	\$29,826	\$39,337	\$41,590	\$24,327
Capital expenditures	34,301	47,031	50,687	33,730	13,638
Cash flow from operations, per share	\$2.32	\$2.35	\$3.10	\$3.28	\$2.10
OTHER CONSOLIDATED DATA					
Book value per share	\$7.09	\$6.78	\$6.38	\$5.02	\$3.72
Return on average shareholders' equity	4.5%	6.0%	23.8%	30.0%	46.8%
Number of employees at year end	5,966	5,100	3,947	3,266	1,810
Number of stores at year end:					
Supercentres	104	100	83	64	47
Electronics Express Stores	6	6	6	6	-
Current ratio	1.1	1.1	1.1	1.3	1.4

FINANCIAL REVIEW

Management's Responsibility for Financial Statements

The management of Future Shop Ltd. is responsible for the integrity of the accompanying consolidated financial statements and all other information in the annual report. The financial statements have been prepared by management in accordance with generally accepted accounting principles, which recognize the necessity of relying on some best estimates and informed judgements. All financial information in the annual report is consistent with the consolidated financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management depends on the Company's systems of internal accounting control. These systems are designed to provide reasonable assurance that the financial records are reliable and form a proper basis for

the timely and accurate preparation of financial statements. Management meets the objectives of internal accounting control on a cost-effective basis through the prudent selection and training of personnel and the adoption and communication of appropriate policies.

The Board of Directors oversees management's responsibilities for financial statements primarily through the activities of its Audit Committee. This committee meets with management and the Company's independent auditors, Deloitte & Touche, to review the financial statements and recommend approval by the Board of Directors. The financial statements have been audited by Deloitte & Touche. Their report is presented below.

Hassan Khosrowshahi
*President, CEO and
Chairman of the Board*

Gary Patterson, CA
Chief Financial Officer

AUDITORS' REPORT

To The Shareholders Of Future Shop Ltd.

We have audited the consolidated balance sheets of Future Shop Ltd. as at March 31, 1998 and 1997 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis,

evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche
*Chartered Accountants
Vancouver, British Columbia
May 8, 1998*

CONSOLIDATED

BALANCE SHEETS

as at March 31
(in thousands of dollars)

	Notes	1998	1997
CURRENT ASSETS			
Cash and short-term deposits		\$58,945	\$41,563
Accounts receivable		15,121	12,489
Inventory		254,690	244,074
Prepaid expenses		1,634	1,521
		330,390	299,647
Capital and other assets	2	108,269	103,910
		\$438,659	\$403,557
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		\$309,838	\$274,721
Current portion of extended warranty plan		4,480	5,500
		314,318	280,221
Extended warranty plan		28,283	29,114
Deferred income taxes		4,828	6,953
Due to affiliated company	3	1,364	1,364
		348,793	317,652
SHAREHOLDERS' EQUITY			
Capital stock	4	29,851	29,851
Retained earnings		60,015	56,054
		89,866	85,905
		\$438,659	\$403,557

Commitments 6

APPROVED BY THE BOARD

Hassan Khosrowshahi (signed) Director

Gary Patterson, CA (signed) Director

CONSOLIDATED

STATEMENTS OF EARNINGS

years ended March 31
(in thousands of dollars
except per share amounts)

	Notes	1998	1997
Sales		\$1,760,160	\$1,523,016
Cost of sales		1,370,773	1,170,801
Gross profit		389,387	352,215
Selling, general and administrative expenses		386,080	348,583
Earnings before income taxes		3,307	3,632
Income tax recovery	5	654	1,383
Net earnings		\$3,961	\$5,015
Earnings per share		0.31	\$0.40
Weighted average number of common shares outstanding ('000)		12,670	12,670

CONSOLIDATED

STATEMENTS OF RETAINED EARNINGS

years ended March 31
(in thousands of dollars)

	1998	1997
RETAINED EARNINGS, BEGINNING OF YEAR	\$56,054	\$51,039
Net earnings	3,961	5,015
RETAINED EARNINGS, END OF YEAR	\$60,015	\$56,054

CONSOLIDATED STATEMENTS

OF CHANGES IN FINANCIAL POSITION

years ended March 31
(in thousands of dollars
except per share amounts)

	1998	1997
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings	\$3,961	\$5,015
Items not involving cash		
Depreciation and amortization	28,294	24,145
Loss on disposal of capital assets	41	457
Deferred income taxes	(2,125)	(1,223)
Extended warranty plan	(831)	1,432
Cashflow from operations	29,340	29,826
Change in non-cash operating working capital	20,736	19,345
Net cashflow from operations	50,076	49,171
INVESTING	1,607	1,446
Proceeds on disposal of capital assets		
Purchase of capital assets	(34,301)	(47,031)
	(32,694)	(45,585)
NET CASHFLOW	17,382	3,586
CASH POSITION, BEGINNING OF YEAR	41,563	37,977
CASH POSITION, END OF YEAR	\$58,945	\$41,563
CASHFLOW FROM OPERATIONS, PER SHARE	\$2.32	\$2.35

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The following include significant policies that have been adopted by the Company where alternatives are available:

a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Future Shop Protection Corp., and Future Shop, Inc. All significant intercompany transactions are eliminated upon consolidation.

b) Inventory

Inventory is valued at the lower of average cost and net realizable value. Cost consists of invoiced cost plus freight and duty, net of discounts.

c) Capital assets, depreciation and amortization

Fixed assets are recorded at cost. Depreciation and amortization are provided using the following methods and rates:

Vehicles	30% declining balance
Furniture, fixtures and equipment	20% declining balance
Computer hardware and software	Straight-line over three years
Rental assets	Straight-line over four years
Leasehold improvements	Straight-line over five years

d) Goodwill and intangible assets

Amortized on a straight line basis over five years.

e) Extended warranty plan

Anticipated costs related to product warranty are recorded at the time of the sale of the extended warranty contract.

f) Foreign exchange translation

The Company's foreign operation is an integrated subsidiary and its financial statements are translated using the temporal method.

g) Foreign exchange contracts

The Company is exposed to the risk of exchange fluctuations for goods purchased in the U.S. for sale in Canada. The Company manages this risk with the use of forward exchange contracts which fix the exchange rate on these purchases. All other inventory is purchased in the same currency as it will later be sold. In addition, to the extent the Company needs to finance its expansion in the U.S. with Canadian funds, currency fluctuations can increase or decrease the amount of Canadian funds required. The Company is exposed to foreign exchange fluctuations to the extent of its net investments in the U.S. including any additional investment relating to its expansion.

The liabilities of the Company which are covered by forward exchange contracts (notional amount) equal \$9,917,977. The market value at March 31, 1998, translated at the spot rate, is \$9,907,364. All of these contracts mature within 2 months.

h) Management's estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities,

revenue and expenses, and the disclosure of contingent assets and liabilities at the reporting date and during the reporting period. Actual results could differ from the estimates.

2. CAPITAL AND OTHER ASSETS

	Accumulated Depreciation & Cost Amortization		Net Book Value	
			1998	1997
	(\$'000)			
Vehicles	\$ 143	\$ 112	\$ 31	\$ 46
Computer hardware/ software	29,988	12,637	17,351	7,465
Furniture, fixtures and equipment	77,873	32,448	45,425	45,789
Leasehold improvements	81,861	41,001	40,860	47,047
Rental assets	2,672	769	1,903	2,869
Goodwill and other	3,266	567	2,699	694
	<u>\$ 195,803</u>	<u>\$ 87,534</u>	<u>\$ 108,269</u>	<u>\$ 103,910</u>

3. DUE TO AFFILIATED COMPANY

The amounts are owing to a company under common control and are unsecured, non-interest bearing and repayable only from taxable income of Future Shop, Inc.

4. CAPITAL STOCK

a) Authorized and issued

The Company is authorized to issue an unlimited number of common, preferred and employee participation shares, with no par value. There were 12,670,000 common shares issued and outstanding at March 31, 1998 and 1997.

b) Stock options

As at March 31, 1998 the Company had director and employee options outstanding for the purchase of 615,569

common shares. These options, which expire between December 2, 2003 and June 26, 2007, may be exercised as to 25% per year from the date of issue at an exercise price equal to the market price of the shares on the date of grant which range from \$9.85 to \$25.50 per share.

5. INCOME TAXES

The provision for income taxes is at an effective tax rate which differs from the basic corporate tax rate for the following reasons:

	1998	1997
Combined basis Canadian federal and provincial income tax rates	44.05%	44.05%
	(\$'000)	
Provision for income taxes based on above rates	\$ (1,457)	\$ (1,600)
Increase (decrease) resulting from:		
Lower rate on losses of foreign subsidiary	(2,208)	(2,085)
Benefit of losses of foreign subsidiary not recorded	(9,792)	(9,242)
Utilization of income tax benefits not previously recorded	15,970	15,058
Other	(1,859)	(748)
Income tax recovery	<u>\$ 654</u>	<u>\$ 1,383</u>

The Company and its subsidiaries have available tax loss carry forwards and timing differences which they can apply against future earnings. The portion of the loss carry forwards for tax purposes which has not been recognized in the financial statements amounts to \$43 million, all which expire up to 2013. Potential income tax benefits on timing differences of \$11 million, which are available to apply against future earnings, have not been reflected in the accounts.

6. COMMITMENTS

The minimum future annual payments at March 31, 1998 under operating leases for Future Shop and its subsidiaries were as follows:

Years ending March 31:	(\$'000)
1999	52,725
2000	52,761
2001	53,736
2002	55,205
2003	56,021
Thereafter	306,193
Total	<u>576,641</u>

7. RELATED PARTY TRANSACTIONS

Related party transactions and balances not disclosed elsewhere in these financial statements include:

- charges by affiliated companies consisting of rental costs paid to a company under common control of \$1,368,777 (1997 - \$1,697,866) and administration fees paid to the parent company of \$500,000 (1997 - \$560,000)
- accounts payable includes \$ nil (1997 - \$1,075,000) due to companies under common control.

8. SEGMENTED INFORMATION

The Company operates in one industry and two geographical locations.

	1998 (\$'000)	1997
Sales for the year		
Canada	\$ 1,251,197	\$1,093,532
United States	<u>508,963</u>	<u>429,484</u>
	<u>\$ 1,760,160</u>	<u>\$1,523,016</u>
Net earnings (loss) for the year		
Canada	\$ 31,203	\$ 30,801
United States	<u>(27,242)</u>	<u>(25,786)</u>
	<u>\$ 3,961</u>	<u>\$ 5,015</u>
Identifiable assets at end of year		
Canada	\$ 293,048	\$ 276,033
United States	<u>145,611</u>	<u>127,524</u>
	<u>\$ 438,659</u>	<u>\$ 403,557</u>

9. FINANCIAL INSTRUMENTS

a) Financial Risk

The Company is exposed to financial risk arising from fluctuations in foreign exchange rates, and the degree of volatility of these rates. The Company uses forward exchange contracts as described in Note 1 (g) to hedge its exposure to certain foreign currency risk.

b) Credit Risk

The Company's exposure to credit risk is limited. Accounts receivable are primarily from Future Shop customers which are a large and diverse group.

c) Fair Value

Fair values of cash and short-term deposits, accounts receivable, accounts payable and accrued liabilities approximate their carrying values.

Hassan Khosrowshahi (2)
*President, Chief Executive Officer &
Chairman of the Board
President, Inwest Investments Ltd.*

Nezhat Khosrowshahi
Director, Inwest Investments Ltd.

Edward A. Kotite (2)
Partner, Kotite & Kotite LLP

Gary Patterson (1)
*Executive Vice President
and Chief Financial Officer*

Edwin Charles Phillips (1,2)
Corporate Director

Ian Thomas (1)
President, Thomas Consultants Inc.

(1) member of the audit committee

(2) member of the compensation committee

CORPORATE
OFFICERS

Ron Costigan
Director, Credit

Alan Evanston
Director, Service

Bob Golden
*Director, Store Design &
Merchandise Presentation*

Behzad Khosrowshahi
Vice President, PNW Operations

Hassan Khosrowshahi
Chairman, President & C.E.O.

Rozanne Kipnes
*Director, Real Estate Development &
Construction*

Kevin Layden
Executive Vice President, Merchandising

Rick Lotman
Director, Music & Video

Michael McEvoy
Director, Resource Protection

John Mortimer
Vice President, Human Resources

Larry Needham
Chief Information Officer

Gary A. Patterson
*Executive Vice President & Chief
Financial Officer*

Kevin Primeau
*Director, Merchandising Information
Products Group*

Wesley Skitch
*Vice President, Eastern Canada
Operations*

Ron Tweddle
Controller

Don Whilsmith
Director, Distribution

Hani Zayadi
*Vice President, Western
Canada Operations*

Randolph Zien
Vice President and Secretary

FUTURE SHOP

STORE LOCATIONS

CANADA

British Columbia

Kamloops
Kelowna
Nanaimo
Greater Vancouver (13)
Victoria

Alberta

Calgary (3)
Edmonton (5)
Lethbridge
Medicine Hat

Saskatchewan

Regina
Saskatoon

Manitoba

Winnipeg (4)

New Brunswick

Moncton

Nova Scotia

Halifax

Ontario

Ancaster
Barrie
Brampton
Burlington
Hamilton
Kingston
Kitchener
London(2)
Oakville
Ottawa (3)

St. Catharines

Stoney Creek
Thunder Bay
Greater Toronto
Region (13)
Windsor

Quebec

Gatineau
Montreal (7)
Quebec City (2)
Chicoutimi

PACIFIC NORTHWEST, U.S.A. (Future Shop Inc.)

Washington

Bellingham
Everett
Lacey
Seattle (4)
Tacoma (2)
Yakima

Spokane (2)

Issaquah
Kennewick

Oregon

Eugene

Medford

Portland (4)
Salem

Idaho

Boise

Montana

Billings
Missoula

Utah

Salt Lake City (3)
Orem

ELECTRONICS EXPRESS

STORE LOCATIONS

Alberta

Calgary (2)
Edmonton

British Columbia

Vancouver (2)
Victoria

REGIONAL OFFICES

AND DISTRIBUTION CENTERS

Calgary, Alberta

(Regional Office)

Kent, Washington

(Regional Office and Distribution Centre,
Future Shop Inc.)

Montreal, Quebec

(Regional Office)

Toronto, Ontario

(Regional Office and Distribution Centre)

Vancouver, British Columbia

(Regional Office and Distribution Centre)

AUDITORS

Deloitte & Touche
Chartered Accountants
Vancouver, British Columbia

COMMON SHARE TRANSFER AGENT & REGISTRAR

Montreal Trust Company
Vancouver, British Columbia

ANNUAL GENERAL MEETING

August 19, 1998
1:30 p.m.
Holiday Inn, Metrotown
4405 Central Boulevard
Burnaby, B.C.

PRICE RANGE OF COMMON STOCK

Future Shop Ltd. Common stock is traded on the Toronto Stock Exchange (TSE) and Vancouver Stock Exchange (VSE) under the symbol FSS. The following table sets forth the quarterly high and low sale prices reported on the TSE:

Fiscal Quarters	Fiscal 1998	
	High	Low
First	\$16.00	\$11.55
Second	17.95	13.20
Third	16.50	13.00
Fourth	14.50	12.00

Corporate Headquarters
1400 - 1111 West Georgia Street
Vancouver, British Columbia
V6E 4M3

Head Office
8800 Glenlyon Parkway
Burnaby, British Columbia
V5J 5K3